TESTIMONY OF WILLIAM J. DEEHAN

I. Introduction and Purpose of Petition

Q. Please state your name, business address and current title.

A. My name is William J. Deehan, my offices are located at 77 Grove Street, Rutland, Vermont, and I am the Vice President of Regulatory Affairs and Strategic Analysis at Central Vermont Public Service Corporation ("Central Vermont," the “Company” or “CVPS”).

Q. Please summarize your educational and professional experience.

A. That information is contained in Exhibit___(WJD-1).

Q. What is the purpose of your testimony?

A. This testimony offered on behalf both Central Vermont and Green Mountain Power Corp. (“Green Mountain” or “GMP”) briefly describes the purpose of the Retail Access Petition, the public policy concerns that have guided the development of the Retail Open Access Tariff (“R-OAT”), the specific unbundling practices that we recommend and our proposal that the Vermont Public Service Board (the “Board”) encourage the formation of consensus building collaboratives to discuss the best way to proceed with the implementation of our plan.

Q. What is the purpose of the Retail Access Petition?

A. This petition starts the process of moving to a restructured electric utility industry in the service areas of Vermont's two largest utility companies. The petition establishes the Companies' conditional, voluntary consent to retail access and customer choice of competitive power suppliers within their respective service areas. It also provides for the suspension of the Companies' obligation to provide generation services to customers. It confirms that the Companies will continue to serve as the exclusive "wires companies" providing all delivery related services to consumers in their respective service territories.

The Companies' filing of this petition is subject to an important condition precedent. The Companies' consent to unbundle their services is conditional upon approval of all of the elements of their restructuring plan entitled, "A Working Plan to Restructure a Significant Portion of Vermont's Electric Utility Industry," filed jointly by CVPS and GMP or March 3, 1999 in Docket No. 6140 (the "Restructuring Plan"). A copy of that plan is included with this filing. In order to move forward with retail access, the Companies must implement all of the elements of the Restructuring Plan including the adoption of a final, binding rate order that allows Central Vermont Public Service and Green Mountain Power

Corporation to recover their costs rendered stranded on account of the introduction of customer choice and retail access. Until all of the elements of the Restructuring Plan are established by effective and binding Board actions, the Companies' consent is conditional.

Q. Please further explain how this petition is contingent upon other actions of the PSB?

A. As previously noted, this petition, like the other components of the Restructuring Plan is contingent on the approval of all other elements of the Restructuring Plan. A basic condition that the Restructuring Plan must achieve is the establishment of reasonable charges for all of the services that we will continue to provide to consumers and Energy Service Providers ("ESP's") -- as well as Competition Transition Charges ("CTC") that are crafted to recover the costs stranded by open access competition. Ultimately, these specific charges will be included in the Retail Open Access Tariff. Procedurally, we anticipate that when the recommended terms on which retail access will be implemented emerge from the various collaborative efforts -- and those terms have been approved by the Board -- the agreement incorporating those terms will be tabled and it will stay tabled until all of the other elements of the Restructuring Plan are ready to

be implemented and then everything will be implemented at an all inclusive "closing." At that stage, the specific final compliance charges will be known and those charges will be inserted into the tariff.

Q. With respect to the rate requirements described in the Restructuring Plan, what is the Company's proposal for establishing rates for delivery related services at the start of retail access.

A. The rate requirements are intended to recover our stranded costs during a transitional period. We do not intend to propose a path for delivery related cost recovery. It is our proposal, based upon principles approved by the PSB in this docket, that the costs necessary to provide for delivery service will be broken out of the total cost-of-service when retail choice is first implemented and that all such charges will continue to be price regulated using Vermont's existing method of setting rates (*i.e.*, base rates established from a historic test period with adjustments for known and measurable changes).

Q. From the Company's perspective, what is the best way to establish the rules of retail access?

A. We propose that the rules of open access be developed in collaboration with the Department of Public Service (the "Department" or "DPS"), ratepayer

constituencies and other appropriate stakeholders. The rules that we ultimately develop can then be implemented in the Companies' tariffs as approved by a Board Order or may be implemented, in part, through Board certification or registration or other regulatory means. Any such set of operating rules, establishing retail choice and defining the characteristics of the temporary "transition period" will, by necessity, be chock-full of public policy considerations. These considerations should be illuminated and considered in a collaborative manner so that the interests of all are appropriately addressed. It is our expectation that such an effort will be materially benefitted by the experiences the Department has had in the opening up of telephone services to competitive entry. Ultimately the choices that are made by the Board will have to fit the specific circumstances of each of the Companies but, where relevant, they should be established in a manner that allows applicability to the other utilities. Central Vermont and Green Mountain are committed to do all that they can in such a collaborative effort to be sure that this occurs.

A. Retail Open Access Tariff and ESP Certification or Registration

Q. What is the vehicle for putting the operational requirements of retail access into effect?

A. The proposed R-OAT includes proposals for the operational and administrative aspects of retail access. It is our intention that the proposals be considered as a starting point -- subject to adjustment and further development in the collaborative efforts that are identified in this testimony. Through the Public Service Board's authority over utility tariffs and its certification or registration of competitive energy service providers, it is possible to define and establish the requirements for retail access. The preliminary tariff provided with this filing includes a certification or registration process to be performed by the Board through which the new ESP's will become eligible to serve retail consumers in the CVPS and GMP service areas. That certification process will allow the Board to impose conditions on such suppliers as a requirement for utilizing the Retail Open Access Tariff to serve customers.

Q. What terms and conditions are contained in the preliminary R-OAT?

A. The tariff includes the proposed terms of retail open access delivery service and, through its various appendices, proposals for the other related requirements or arrangements that are needed to unbundle power service (*e.g.*, an operating agreement establishing the rules that govern business dealings among the wires company and each ESP). The proposed tariff is *pro forma* in the sense that it

identifies the rate elements (*i.e.*, the individual kW, kWh, and service charges) by rate class; but these elements do not now contain numerical values. After power cost mitigation occurs in the companion dockets provided for in the Restructuring Plan and the final timing of open access is determined, a revenue requirement will be established. It is our intention that the cost-of service methodology and rate design principals established in this proceeding be applied to establish the unbundled charges that will apply in the Retail Open Access Tariff. At that point, the numerical values will be known and substituted into the tariff in compliance with the Board's orders. This filing does not seek to establish the new revenue requirement and it is not our intention to draw issues of stranded cost recovery or power supply divestiture into this proceeding given that there will be a separate dockets specifically designed to address those issues.

B. Timing of Retail Access

Q. When should retail access commence?

A. Retail access can not occur until sometime after the closing -- as described in the Restructuring Plan. The collaborative efforts described in my testimony can work all of the details out -- and indeed, the collaborative efforts must work out

the primary issues and rules -- before the closing, or else the closing can not occur. Central Vermont's recommendation is to implement retail access in accordance with a schedule determined by that collaborative effort.

Our initial recommendation is that the commencement date should be approximately 1 year from the time of the closing. That would put the commencement date at around September 1, 2001. Ultimately, the exact timing ought to be determined in light of core characteristics that emerge from the consensus building efforts.

The initiation of retail access is a pretty big deal. Once done, it will be permanent and difficult to modify. What is most important is that we collectively prepare and get it right -- rather than setting a deadline prior to understanding what is needed.

Q. What do the Companies propose in terms of the order in which classes of consumers are given retail access and choice?

A. It is our perception that there is a strong preference in Vermont policy circles for simultaneous access for all types of customers (*i.e.*, large and small alike), so that is our initial recommendation. Whether or not there is a need for phasing within the categories of customers (to make the process more manageable and

feasible) will depend on the details -- particularly whether we expect that a large proportion of consumers will be incented to find new competitive power suppliers right away when open access begins. We anticipate that the initial recommendation made in this filing, particularly with respect to "transitional service," will result in a paced movement of customers to ESP's over the first one to two years of open access and that this is consistent with allowing choice for all customers (without phasing) at one time about one year after the closing.

C. Vermont Principles on Electric Industry Restructuring

Q. Do the Companys' initial proposals comply with the *Vermont Principles on Electric Industry Restructuring* adopted by the Board in Docket No. 5854 and made applicable to this proceeding by the Board's Order in Docket No. 6140-a?

A. Yes, we believe they do. A separate summary of how these initial proposal are consistent with *the Principles* is included with this filing (see "Statement of Compliance with the Vermont Principles on Electric Industry Restructuring")

Generally speaking, the Principles are motivated by two overriding objectives: efficiency and fairness. We believe that the dual factors of: (i) expansion of choice for retail consumers; and (ii) competition among ESP's will drive efficiency and innovation beyond that which can be administered by

continuing the existing regulated power supply paradigm. This proposal provides basic fairness through nondiscriminatory open access on common, Board-approved terms for all providers.

D. The Effectiveness of the Regional Power Market

Q. Is it your expectation that competitive market forces will be an effective substitute for price regulation?

A. Yes, I expect that it will be.

Q. How have you arrived at that expectation?

A. There are two levels to my analysis: first, the overall competitiveness of the wholesale power supply market and, second, the likely competitiveness of the future Vermont retail market -- particularly with respect to the ability of open access to achieve the traditional public objective of providing safe and adequate service at just and reasonable rates. It is necessary that both of these market levels be effectively competitive because it is from the regional wholesale market that retail ESPs and Default Service providers will get the power which they in turn sell to consumers. If the region's power supply market were not competitive, it wouldn't matter how competitive the ESP business was in the CVPS and GMP retail access areas because consumers would still be paying uncompetitive

prices.

The evolving wholesale market has every indication that it is effectively competitive and becoming more so all of the time. In an effectively competitive market, no supplier has the ability to control price simply because there are other suppliers who respond with lower priced offers of service whenever the prices prevailing in the market are above their cost. It is my conclusion that no supplier (or small subset of suppliers) appear to have control of enough of the New England region's power production or have an inherent cost advantage over the others that would allow them to set and maintain prices. Key to my reaching this conclusion are the facts that: (1) bulk transmission is now provided on an open access basis; (2) there is a tremendous amount of new entry (in the form of both new power plants and the breaking-up of the existing, larger regional utilities' portfolios) acting to produce low ownership concentrations; (3) the creation of the Independent system Operator's ("ISO") transparent power exchange; and (4) because it is unlikely that Vermont would end up on the less competitive, higher cost side of the POOL if locational pricing comes into play (Vermont is not a concentrated load center with constrained transmission interconnections). Additionally, with reasonably low fossil fuel prices and the strong availability of

natural gas within the New England Region, the near future ought to be a time in which no form of generation has an inherently large cost advantage over another. The bottom line is that I see no reason why conditions in the region's wholesale power market should not result in rates, over the long term, that are effectively competitive and at least as attractive to consumers (and probably more attractive) as those which are likely to result from cost-of-service based price regulation.

Of course, Vermont's competitive retail market does not yet exist so there is no performance record upon which to assess its future effectiveness in achieving the public's objectives. However, I would submit that the retail market's ultimate competitiveness will largely be determined by Vermont's ability to craft a system, including ESP requirements, that will create conditions that engender sufficient entry by ESPs at the time that the protections of price regulation are being withdrawn. In other words, whether CVPS's and GMP's retail markets becomes effectively competitive will be determined, to a large extent, by Vermont itself.

The business rules and administrative mechanisms we propose have been developed with an eye toward transactional efficiency and compatibility

with the rules that ESP's have already experienced in other New England states. That should help ESP market entry. At the risk of stating the self-evident, a firm regulatory finding that traditional price regulation of generation service is no longer the policy of the state would seem to be a part of creating the conditions needed to encourage ESP's to make the administrative and marketing investments required for them to enter any state's market. As an additional boost for new entrants, Central Vermont and Green Mountain has no plans to offer ongoing power supply service in competition with the ESPs. In other words, unlike most other open access states, the incumbent provider utility will not be contesting to retain market share.

There are a number of public purposes expressed in the Principles that ESPs will play key roles in achieving (*e.g.*, utilization of renewable resources) and Vermont must strive to make that both feasible and workable. Vermont is a small market but it is surrounded by large market states that are implementing retail competition and this gives it the potential to devise a system that efficiently plays off what the others are doing. Furthermore, the competitiveness of the wholesale market in combination with the existence of Default Service will provide the Board with a backstop if for any reason sufficient retail entry does not

initially occur or wavers.

Q. Please describe the information that you have relied upon to assess the competitiveness of the regional wholesale market.

A. I am generally knowledgeable of the utility portfolio sales that have occurred or are expected in the region. The results to date are that new entities, or entities with very small market shares, have purchased portions of the existing utilities' portfolios which has had the effect of deconcentrating existing ownership. The Federal Energy Regulatory Commission has charged ISO/NE with responsibility to monitor the market for evidence of market power. A wide range of entities are constructing or proposing to construct very significant additions to existing generating capacity -- largely in the form of natural gas combined cycle generators. I am generally familiar with the plans of natural gas suppliers to significantly increase sales to power producers in the Northeast and favorable fossil fuel price and market conditions overall. Throughout the conduct of this docket, I will bring forward more specific information regarding the effectiveness of the regional wholesale marketplace as that information becomes available. All and all, I see no reason why the Board should be uncomfortable with relying on the wholesale market to produce reasonably priced, available power that will

serve as the primary ingredient of ESP, transitional and default power services to retail consumers.

E. Recommendations for Deseasonalizing Rates

Q. Please explain why the pro forma R-OAT is without provision for seasonalized charges?

A. In general, we have laid out the pro forma tariff without the seasonal rate differential now in effect in the Companies' rates because of changes implemented in 1998 and 1999 in the region's wholesale power pool. Those changes eliminated the prior *cost basis* for seasonal rates. On September 22, 1997 in PSB Docket No. 6019, Central Vermont filed a deseasonalized redesign of its tariffs because of the changes at the Pool level. That docket was delayed by the Company's appeal of the Board's Order in Docket No. 6018 to the Vermont Supreme Court on unrelated grounds. GMP also has proposed the deseasonalization of its rates. The rate redesign portion of that filing was ordered by the Board to be held pending the establishment of a revenue requirement.

We anticipate that prior to and irrespective of the commencement of retail access, the Board may wish to implement deseasonalized prices because such

charges are no longer cost-based and this change is not substantively related to the change to retail choice. In other words, the cost justification to make the change exists now. Furthermore, it has been our experience that the swing in bills caused by seasonal rates is unpopular with a large majority of consumers, and we believe consumers should not have to experience such effects if the prices that cause them are no longer cost-based.

Q. If deseasonalization were not to be implemented prior to the arrival of retail access, would you nonetheless propose deseasonalization at that time?

A. Yes. But ultimately, there would be tradeoffs that the Board may wish to consider. In particular, moving to deseasonalization at the same time that we unbundle our rates will make the initial bill effects of restructuring less apparent to consumers in terms of a straight-forward comparison to prior bills. In our opinion, it would still be justifiable to begin deseasonalization simultaneously with unbundling for the reasons I have described.

Q. Can there be exceptions in terms of *rate structure* that will continue to be defined by the existing system of winter (*i.e.* December to March) and non-winter rates (*i.e.* April to May)?

A. Yes, for example there are exceptions in the Company's classes that include

time-of-day ("TOD") rates. These classes include different TOD rate periods in the two seasons (such as Central Vermont's Rate 9, Residential TOD which has three daily rate periods in the winter months and two in the other eight months). Under such rate structures, meters are programmed, and customers control loads, based upon these periods, and these periods may also coincide with higher cost periods in the Pool; so there is likely to be value in retaining that structure, at least initially. The Companies propose to continue to differentiate such structural charges in the R-OAT based on TOD but not to reflect a seasonal difference. Our expectation is that the rate structures may evolve after open access is initiated.

Q. Does this mean that seasonal pricing is no longer appropriate for the Vermont utilities under any circumstance?

A. No, in general it does not. It depends primarily upon the seasonal load shape of each utility.

For example, from the perspective of delivery related costs, Central Vermont customers impose peak loads in the summer that are approximately 15% lower in the mid-June to mid-September cooling season than the peak loads of the mid-December through mid-March heating season. It just so

happens that the delivery facilities' seasonal capacity ratings vary by approximately the same factor. In other words, because of the physics of transformers and conductors (*i.e.*, approximately 15% greater effective capacity in cold ambient temperatures), Central Vermont's summer and winter seasonal peak loads create about the same effective need for peak delivery capacity on the Company's network.

This is not necessarily the case for each of the Vermont utilities. In particular, some of the utilities that serve communities dominated by pronounced winter peaks related to skiing and associated snowmaking may appropriately have a very significant seasonal aspect to their cost of delivery.

From the perspective of production related costs, the region experiences its peak demand (on the pool of power plants) in both the summer and winter. While we haven't had much experience with the new bid-based market; it seems reasonable to expect the highest wholesale prices in those two seasons. For a Vermont utility that chooses to continue to provide bundled service, it may be reasonable to reflect higher costs in retail rates in one or both seasons.

Q. From a rate structure perspective, what are the alternatives for reflecting the cost implications of peak demands on delivery facilities?

A. For moderate and large size electric customers, time-of-use charges and/or demand "ratchets" are effective means of communicating the delivery cost implications of inconsistent consumer demands. Fundamentally, it takes the same investment in capacity-related local delivery plant and equipment to serve a kW of demand for 1 hour a year at location "A" as it does to serve a kW of demand for 2 hours, 10 hours, 100 hours or 8760 hours a year at location "A." A "ratcheted" rate recognizes this and keys off the highest demand metered on the customer's account during a period of time that covers the current billing period and prior billing periods (*i.e.*, the customer's prior 11 bills). In this way, for customers that set high demands for a few months each year, the ratchet feature of the kW charge continues to bill for those demands the same as if such customers had constant demands over the year. This results in a fairer allocation of costs among customers than would result if delivery charges to those seasonal customers didn't support fixed cost recovery year round -- effectively shifting those costs to others in higher overall unit costs.

Q. Is there a transition involved in what you would propose?

A. Yes there is. We suggest that the deseasonalization of rates not be allowed to shift revenue requirements among rate classes when first implemented. In

subsequent periodic rate redesigns, based on cost-of-service studies that reflect the removal of NEPOOL's so-called "70:30 rule," revenue requirements can be allowed to move among classes based on their aggregate cost causation under the new non-seasonal pool rules. We would suggest that a phasing-in over two to four years be utilized.

Q. From the individual customer's perspective, what is the effect of such an approach?

A. When rates are first deseasonalized, for customers within each class who are disproportionately intensive consumers in the peak season, there will be a reduction in their annual billings, and visa-versa for those who are not . All users will, of course, see lower bills in the four winter months and higher bills in the other eight months, all other things being equal. Then, as revenue requirements are allowed to be reallocated among classes, the same sort of effect will be experienced among the more and less intensive former peak season rate classes and their customers.

Q. Is this proposed approach consistent with the Vermont Principles on Electric Industry Restructuring?

A. Yes, it is consistent with Principle No. 10, which states that "[t]he benefits of

restructuring must be extended equitably to all classes of consumers. The benefits of *restructuring* must not be achieved through shifting of costs among customer classes." [emphasis added]. While deseasonalization is not directly related to retail access, it is the result of *wholesale restructuring* and the timing of its implementation in retail rates happens to roughly coincide with retail access, so this phased approach seems like a reasonable way to deal with deseasonalization.

II. Public Policy Issue Development

Q. What are the primary operational issues to be resolved through the Retail Access Petition?

A. We have grouped the primary operational issues into ten categories and for the moment I'll just list them.

1. Scope of Regulated Utility Services
2. Certification or Registration of Competitive Energy Service Providers
3. Customer Enrollment Procedures
4. ESP Settlement Process

5. Default Service
6. Transitional Service Offer ("TSO")
7. Unbundled Utility Rate Design and Cost of Service
8. Consumer Protections
9. Public Benefit Programs
10. Consumer Education

Each of these categories are further explained in this testimony.

Q. Does your testimony explain the initial recommendations made in each operational area?

A. This testimony summarizes the initial recommendations and their attributes, discusses what we expect are the primary alternatives to those recommendations and identifies the scope of topics that the collaborative working groups should be asked to address. I should also note, there is a great amount of detail in the initial preliminary R-OATs and the appendices that is not specifically addressed in this introductory testimony.

Q. Before you describe each operational issue, are there common policy issues that go across the operational areas?

A. Yes there are. To understand why, consider that retail choice will require the

resolution of the following key operational issues:

- We need to develop rules defining the roles and responsibility of consumers, ESP's and delivery utilities -- rules that have the potential to become a model for other Vermont utility service areas that choose to propose retail access;

- We need to resolve the myriad of issues that arise around defining the boundary between competitive firm and regulated utility provision of services; particularly metering, metering services, billing, information and customer care services (*i.e.*, all of the so-called 'revenue cycle' services;

- We need to appropriately deal with the potential consumer bill impacts arising from service and component rate unbundling (and from any potential utility consolidation and the melding together of their pre-existing separate tariffs);

- We need to define the characteristics of so-called "default" service (*i.e.*, necessary, ongoing, power supply service of last resort) and, possibly, "transitional service" (*i.e.*, optional, transitional power supply service for consumers who are not prepared to choose on the first day of retail access);

- We need to identify and resolve issues of consumer protection, education and awareness; and

- We need to develop the requirements for renewable resource utilization and portfolio emission standards or other matters of public interest.

These practical matters bear upon public policy and visa versa. Of the fourteen defined *Vermont Principles*, the proposed operational rules will have the greatest direct bearing upon the policies of maintaining universal access,

attaining environmental protection, extending the restructuring's benefits to all classes of customers (and not shifting costs among customers), promoting nondiscriminatory open access, maintaining and enhancing customer service safeguards and assuring continued system integrity and reliability.

A. Universal Access

Q. As an example, please explain how universal access is potentially affected?

A. The operational rules of open access will determine the scope of the basic business infrastructure needed to serve customers. The restructuring will, therefore, fundamentally affect the basic economics and cost of the services provided by Vermont's extremely small utility organizations and the new competitive power suppliers. Unanticipated "second round" price implications could impact Vermont's policy of promoting universal access to this essential service for all its citizens. While the restructuring is expected to increase power production efficiencies, it also requires a deintegration and recoordination that will add new costs for these small organizations. Were open access to be implemented in a way that regulated and competitively supplied services were put in competition with one another, cream-skimming and spiraling costs for remaining utility delivery services could result. As such, in investigating the

potential of alternative forms of retail access to change our infrastructure, we have come to understand that it is absolutely imperative that the restructuring clearly delineate the line between competitive services and regulated utility services and, should it become desirable to move that line, over time, that a clear plan be developed to accomplish such a change. Furthermore, to the maximum extent possible, we must utilize standardized and or statewide means of providing certain services. For example, we believe statewide provision of what are described herein as "default" and "transitional" power services is the means by which to achieve some scale and make such services most economic (as used here, the term "statewide" refers to those utility systems located in Vermont that open up to retail access).

Q. Please summarize the other high level policy concerns that you have considered.

A. The following sections summarize the issues and considerations upon which Central Vermont and Green Mountain have based their initial recommendations -- please keep in mind that these are starting-point proposals intended to initiate and focus discussion and, ultimately, collaboration.

B. Statewide Template

Q. Can the proposals contained in the Companies' Petition be used as a template

for retail access by other interested utilities in Vermont?

A. Yes. Because of our exceedingly small scale, utilities in Vermont will be challenged to develop the resources, both financial and human, that will be needed to meet the new complexities and requirements that are created by retail competition and unbundling. Our small customer base also creates a challenge for the new ESPs who will enter the market in the hope of making a return. Unbundling requires deintegration of existing monopoly service and replacement by coordinated competitive/ monopoly services. For these reasons, we believe that it is in Vermont consumers' interest that all Vermont utilities that choose to have open access present one common interface -- modeled upon procedures adopted in other larger, near by open access states -- so that suppliers can interact by utilizing their pre-existing information systems and, thereby, be encouraged to enter the Vermont market. We must be mindful that potential competitive entrants will be challenged to deal with Vermont's small customer base -- particularly if an unnecessary patchwork of rules and procedures were to be allowed to evolve. Where relevant, common statewide approaches should be encouraged to achieve the best economies-of-scale in meeting requirements. However, implementing statewide solutions that support multiple Vermont utilities

presents its own complexities and issues and, we expect that there will be times when a decentralized approach is best.

Other related issues include maintaining sufficient scale in remaining individual utility business functions (in order to keep unit charges to consumers reasonable), maintaining organizational identity, and the recovery of cost for infrastructure that becomes unusable due to new, evolving requirements or further competitive entry.

Our proposals, as set forth in the Petition and related materials, are designed to serve as a template that can be approved now and adapted to fit other Vermont utilities that choose to move to retail choice.

C. Transition Service and Default Service

Q. What are the Companies' recommendations regarding transition service and default service?

A. *Transition Service* refers to the arrangements for the provision and pricing of retail power supply service for those customers who elect not to immediately seek alternative electricity suppliers as the industry transitions into a competitive market structure. It is not an absolute necessity that a transitional service be offered -- it is a matter of determining if a temporary service offering can be

configured that provides some security to consumers as they adapt to the new open access marketplace without inadvertently creating an undesirable barrier that unjustifiably discourages competitive suppliers from economically entering the Vermont retail market. *Default Service* is a permanent offering of a power supply of last resort. It is possible that "Default Service" can be configured to adequately serve both purposes, obviating the need for a transitional service, but that may present its own tradeoffs. These major issues are further discussed in the section of the testimony that addresses these important services.

D. Metering, Billing and Customer Care

Q. What are the Company's recommendations with respect to metering, billing and related customer care?

A. At the current time, we propose that these remain regulated services to be provided by the wires companies. Some of the major issues that would arise in these operational areas include:

- Establishing business rules, defining the coordinated responsibilities of competitive meter providers; meter service providers, and meter reading and data service providers;

- Determining how data distribution, management and dissemination activities will work between the competitive meter/service/reading providers, utilities and ESP's including file formats and an Electronic Data

Interchange protocol;

- Developing, reporting and reconciling load shape data employed to establish the hourly loads of individual consumers for NE-ISO settlement purposes;

- Determining what consolidated billing options are required, how verification and testing will be assured, who will handle bill inquiry and what type of information will be included on bills;

- Developing and implementing collection, disconnect or termination of service procedures for utility delivery and default services and, to the extent they apply, transition service and/or competitive power services provided by ESP's;

- Establishing additional consumer protection and ESP or other provider certification and registration requirements to police slamming, cramming and other potentially undesirable activities related to these services; and

- Measures to protect against potential default by competitive, consolidated billing entities, particularly for the utility revenue stream.

- Determining whether metering and its related services can reasonably be expected to be effectively competitive services, or under what future conditions such competition would be achieved and for which classes of customers.

In particular, we highlight the need for the Board to carefully consider whether the operational and implementational complexities and costs of any proposals to unbundle metering and related services would be likely to be offset by an adequate level of benefit in Vermont's circumstances. It is our considered

judgement that, given the potential to flexibly utilize the metering that has already been deployed, similar to what has been done in Massachusetts, any additional benefits of making metering a competitive service won't offset the negative effects. A decision to unbundle metering would significantly delay implementing retail access. We believe that as the alternative we can economically supply all of the meter data needs in open access through communications utilizing the Companies' existing metering equipment with relatively modest additions.

If the Board's judgement is to the contrary (*i.e.*, that metering should be competitive), the utilities should be allowed to exit the provision of this service in phase with competitive entry and to amortize in rates their remaining sunk infrastructure costs rendered stranded by such a decision. It is our recommendation that, if these services are to become competitive on day one of open access, the timing of competition be examined with extreme care with the expectation that it will be delayed and that a very explicit transition period be established.

E. Consumer Protection Tariff Requirements

Q. What are the Companies recommendations with respect to consumer protection tariff requirements?

A. Current consumer protection regulations must be thoroughly reviewed to ensure compatibility with the new industry structure. New consumer protections will need to be developed. Distribution companies will still be monopolies and will be regulated by the PSB. The proposed Retail Open Access Tariff contains the existing system of consumer protections for the delivery services provided by Central Vermont and Green Mountain. There will also be a need to regulate some of the non-price related actions of the ESP's. Examples of issues relating to power supply consumer protection include: unfair trade practices; disclosure; fraud; misrepresentation; slamming; and redlining. Many of the new consumer protection issues are solely power supply related. However, as a data source, the distribution companies can be exposed to potential liabilities stemming from disputes between parties. Included with this proposed tariff is Appendix E, which describes the subject area where the Board may choose to develop regulatory approaches to govern the conduct of the ESP's.

Low income consumers have a separate set of issues that get to the core of maintaining effective universal access to this essential service. A basic policy determination is whether bill payment support will be legislatively authorized and, if so, how much support is appropriate. Funding mechanisms would also need to

be developed. Red-lining of categories of customers based on income level or proxies for income level should not be permitted on any offer which is made generally available to the public. The initial proposal we are making for a Transitional Service Offering ("TSO") would provide an initial safety net by allowing low income customers to return to the TSO as they see fit, even after having taken ESP service.

The Companies will work with other interested parties to ensure that customers are treated fairly and that their confidential information remains private and under their control.

F. Environmental Quality and Utilization of Renewable Resources

Q. What are the Companies recommendations concerning environmental quality and the utilization of renewable resources?

A. The power generation industry and the primary energy industries it relies upon for fuel inputs can have significant impacts on natural resources and the environment. Vermont has traditionally utilized power resources that are heavily weighted toward low air emissions and independence from imported fossil fuels. However, every energy resource has some environmental impact. It is fundamentally a matter of public policy and finance to arrive at the judgments

necessary to establish Vermont's standards for limitations on emissions and minimum resource portfolio requirements. Vermont's Restructuring Principles require that the approach to restructuring include precise and realistic mechanisms to attain these goals. Because of its small market size, the Board will have to make maximum use of similar requirements in other larger market states in order to prevent such rules from discouraging entrance by ESP's. The companies' proposals also call on the Board to establish these standards as part of these proceedings or as part of the ESP's certification and registration.

Q. How can the Board achieve the public interest objectives of protecting consumers and assuring other public objectives?

A. There are two means, as explained in the Memorandum of Law, that can be viewed as either alternatives or re-enforcing compliments. They are the Retail Open Access Tariff and the Certification and Registration process -- perhaps involving the issuance of a Certificate of Public Good ("CPG"). The Board can impose conditions upon ESPs as a precondition to their participation in the retail access program; and/or it can impose conditions in connection with the issuance of a CPG to an ESP and, thereby, be assured of one or both means to achieve its public policy objectives.

_____III. Operational Retail Access Issue, Descriptions and Recommendations

A. Scope of Utility Services

Q. What utility service items can be opened up to competition when retail access occurs?

A. Some other states, to varying degrees, have opened up not only energy supply but also billing, metering, metering services, etc. at the initiation of retail access. Such a course would be difficult for extremely small utilities, like Central Vermont, Green Mountain and Vermont's other utilities, particularly at the outset of competition because of the complications that are added to the unbundling effort itself and also because the loss of scale and scope economies would result in higher unit costs for consumers especially were the utility services to be continued in parallel with competitive provision. Ultimately, the scale of the utility operation has nowhere to go but downward, which means fixed costs are recovered over a smaller base. Complications arise because the basic nature of the business relationship between the utility and the ESP's fundamentally changes. For example, if ESP's provide consolidated billing and handle the utility's receivables, then the utility must have financial guarantees that it will

receive payment, and working capital requirements could increase. Each competitive service provider would have to demonstrate that it can accurately bill (or meter) each of the utility's regulated rate structures. This could become a barrier to entry for many ESP's. In situations involving disconnection for non-payment of delivery service charges, the utility field employee would have to have the real-time ability to check with all ESP's to determine if payment had been received for the delivery service component of the consolidated bill. Vermont's protective disconnection rules make this an unattractive model for consumers as well as providers. If metering were made competitive, the utility metering system, which we believe is largely adequate and easily adapted and, therefore, economic for the job of providing additional real time and billing data to consumers and their ESP's, would be scrapped and replaced with new resources. Because our primary and transmission voltage customers generally have interval meters, we believe that there is a much better way by simply offering communication links from the meter to customer or ESP equipment. Furthermore, it is our intent to be flexible in the instances where truly unique capabilities are requested by customers and suppliers. Because of the amount of additional time and expense that would be involved in a conversion to

competitive metering, we strongly recommend that only the provision of power supply (generation services) be opened up to competition, at least for some initial period of time.

Q. Are there disadvantages to the approach you've recommended?

A. Yes there are, but we do not believe they outweigh the advantages. For example, in general, under the proposed approach the customer will receive two bills covering electric service whereas they receive one electric service bill now. However, it is not clear that this will result in a net increase in the total number of bills that consumers deal with because ESP's typically intend to provide other services to consumers (*e.g.*, fuel oil, propane, appliances, communications, etc.) and can be expected to consolidate the billing of those transactions with their billing of power supply services. As such, I would not expect that there will be a material net increase in the number of bills consumers see. In the longer term, if consolidated billing were to become the rule, we expect that mandating that the ESP provide that billing will be the way to go. Utilities will not be able to cost-effectively deal with all of the innovative rate forms and multi-dimensional services that are likely to evolve in the market. Large ESP's are expected to desire to have billing be part of their hoped for extensive relationship with

customers and they have potential to achieve greater scale economies operating in many states than Vermont utilities probably could achieve.

Q. Could leaving metering bundled with distribution service hinder the ability of ESP's to pursue some of the efficiencies anticipated from real time pricing and load control?

A. We do not believe that will be the case because the Companies can cost effectively provide any meter-generated information that is needed and flexibly respond to special needs that arise and which can not be accommodated on the customer's side of the meter. We have offered a standardized communications protocol and meter signal interface (R-OAT Appendix E) that will provide ESPs with information about customer loads on a real time, interval basis. We expect that, as in Massachusetts, this will provide customers and their ESPs the core information they need to automate load control and real time pricing plans of their own unique design.

For customers who receive service at high voltage (*i.e.*, for CVPS primary and transmission voltage Rates 4 and 5 customers and Rate 63 and Transmission Service customers for GMP), we propose that telemetering be made mandatory to, among other things, make ISO settlement accurate.

Q. What are the alternatives?

A. Vermont could decide to unbundle all or some of the so-called "revenue cycle" services that comprise billing and metering, but we expect this would involve significant expense and delay as we contemplate how to do that given the infrastructure of these systems for Central Vermont and Green Mountain, never mind the other smaller Vermont utilities that choose to pursue retail access. Even at our scales, achieving basic energy supply unbundling in an economic and expeditious manner will be a challenging task.

As an alternative for the near term, the Board may want to consider, at least initially, some types of "consolidated billing" that would involve the inclusion of ESP power supply charges in utility bills where the form of the power supply charges are consistent with the utility's existing rate design and billing capability. It should be understood, however, that this will significantly complicate the relationships between utilities and ESPs because of customer inquiries and the needed management of money flows between the entities, but the Board may determine that it is worth it. For example, in the case of Central Vermont, our cash posting and accounting systems are not designed to handle revenues for third party ESP's. We have not proposed consolidated billing with

the exception of default service because of these reasons. However, if such services were only offered for the rate classes with simple rate forms and lots of small volume consumers, complications would be minimized and benefits maximized. As a further alternative, special order work could also be offered at cost for more unique billing to larger customers. Again, we do not expect our billing system to be the economic provider of such a service in the long-run, so it is not part of our proposal.

Q. What if the Board were to allow ESPs to offer, or required ESPs to provide, consolidated billing that included billing for the delivery services provided by Vermont utilities -- remitting the customers' payments to the utilities once billed?

A. We expect certification, and the administrative burden it puts on ESPs and utilities, to become more complicated if such a consolidated bill option is required, especially at the start of retail access. That would require ESP performance bonding (to cover amounts outstanding), funds transfer procedures, working capital terms, accounting procedures, collections terms, communication protocols to administer deposit and disconnection, additional testing to determine that each ESP billing system could accurately bill each of the Company's recurring charges for delivery service, bill inquiry procedures, etc. and other

protections to assure the proper treatment of utility funds and reimbursement to the utility for cash flow delays . This would initially complicate certification and could create entry barriers for new market participants.

Q. Who would bill for default or transitional power service in your proposed model?

A. Utilities would bill for default service along with delivery service, but we propose TSO power service be billed by the state's TSO bid winner and supplier. We have proposed that disconnection apply to consumers who do not pay their default service bills in order to maintain the integrity of the system. Because of the detailed, conditional procedures required in a disconnection situation, we expect that for the time being it would be best if utilities bill and collect default service payments.

Q. What about NEPOOL and VELCO and other wholesale network transmission? Should Central Vermont and Green Mountain continue to purchase these transmission services for customers in its service area or should the ESP provide for transmission?

A. It could be done either way, but what we strongly recommend is that Vermont not allow ESPs to optionally provide transmission to customers of their choice while requiring the delivering utility to provide transmission to remaining consumers.

We expect that such an approach would predictably lead to cream skimming because of the structural difference between the billing units upon which wholesale (coincident peak kW) and retail (non-coincident peak KW and kWh) services are denominated. That structural difference could be exploited leaving behind the customers for whom ESPs determine that administered retail charges are attractive compared to the comparable wholesale charge -- skimming off the others.

This filing includes transmission service in the definition of the delivery services being provided to consumers as an exclusive service offered by the utility and, for most customers, not having to concern themselves with the cost of transmission resold to them by ESPs is a good thing. Some ESPs may also prefer not having to deal with arranging regional and subregional transmission service for each customer they attract in Vermont. If the Board decides to allow ESPs to purchase wholesale transmission services, we ask that the Board make that a mandatory ESP function and that such services be removed from Central Vermont's and Green Mountain's tariffs.

Q. Given that, what is the nature of the Companies' recommendation at this time?

A. We believe that the process of initiating retail choice can be advanced most

quickly, minimizing any unintended consequences, if power supply provision, and only power supply provision, is made a competitive service. After some period of time, when the Board sees that the industry has unbundled power supply successfully and has had an opportunity to observe results of further unbundling in other similarly situated states, it can reconsider whether it makes sense for Vermont to go further. We submit that this approach will also facilitate the entry of more small-sized ESP's, enhancing competition and innovation, because having to deal with these other functions could act as a barrier to their participation. Sound restructuring planning in this regard can be used to prevent or minimize the stranding of additional committed costs in the infrastructure assets that Vermont utilities now must have and will continue to invest in to provide service to the public.

B. Certification and Registration of ESPs

Q. What is the Companies' recommendation with respect to who should administer the certification process for ESPs in Vermont?

A. We believe that the Public Service Board is the appropriate authority to certify or register the ESPs that will compete for our consumer's power supply business.

For a number of reasons, primarily related to consumer protection and conformity with public policy requirements, an ESP must be certified or registered before it can use the Central Vermont or Green Mountain distribution systems to access consumers. Furthermore, if an ESP proves to not meet the standards established by the Board by tariff and/or through certification or registration requirements, the Board would be able to seek changes, find an ESP to not be in compliance or decertify an ESP. One of the important operational process documents included in the proposed tariff is Appendix A, the ESP Certificate of Authorization to be filed with the Board.

Q. What are the alternatives to Board administered ESP certification or registration?

A. The Board could require the utilities to certify ESPs, but we do not believe this would be an appropriate function for the utilities -- given our core responsibility to provide the ESPs nondiscriminatory open access delivery service and the potential for inconsistencies and fragmentation across the state's utilities. The Board could contract with an accounting firm or other independent third party if it wishes to out-source administrative tasks associated with certification and may wish to utilize the Vermont Department of Public Service to monitor and police ESP compliance through the certification or registration process.

Q. Do the utilities have any role in the ESP certification or registration process?

A. Yes, ESPs will have to be able to interact with utilities through an electronic data interchange ("EDI") communications system (See Appendix C of the Retail Open Access Tariff). The EDI is, among other things, the means by which power supply settlement functions are performed . Each ESP will be required to participate in a standardized test to make sure their computer system can communicate with the common interface that will send and receive information from the utilities. A model EDI standard is included with the proposed tariffs as Appendix C.

Q. Why are the Companies proposing an EDI?

A. Transacting through an EDI has become a standard approach in open access states. Because of the high level of frequent communications related to enrollment and settlement, it would become a potentially significant cost barrier for the Companies and the ESP's if transactions were communicated in any other manner.

Q. The format of the EDI transactions are highly detailed. How do they compare to formats and standards of EDI transactions in other states that have implemented retail access?

A. The format of the EDI transactions proposed for Vermont are consistent with the transactions proposed by the EDI Working Group in New Hampshire. The report submitted to the NH Public Utilities Commission was approved and is being implemented as individual companies begin retail access. The NH EDI working group developed business rules and transactions based on the Massachusetts EDI working group. All of the fundamental transactions are consistent. However, we have seen that not all of the business rules are consistent between the states. Additionally, not all of the transactions are used in each state that has retail access. An example of a business rule difference would be the time-frame in which a customer may be enrolled by a power supplier. In one state it may be as little as three days before the meter is read. Another state may require five days and more.

Q. Wouldn't a national solution to formats, transactions and business rules be most efficient?

A. Ideally, yes. However, we are a long way from a national solution. Various states already have protocols and systems in place, and if they are working well they may see little benefit to changing. It is not possible to predict at this time whether national standards will be achieved -- particularly for the business rules.

Ultimately, the states may prove to have or develop important differences in their circumstances (e.g., automated connection and disconnection), policy perspectives (e.g., appropriate notice period for an ESP to drop a customer) or view of which services are or are not workably competitive (e.g., metering). We should continue to consider national solutions, but believe that the EDI transactions that we have proposed at least have regional uniformity and will allow ESP's that are already in the region to enter the Vermont market in a reasonable time while national standards are further pursued.

C. Customer Enrollment

Q. How will customers enroll with ESPs and how will utilities be notified when a consumer enrolls with a participating ESP?

A. ESPs, through their marketing efforts, will sign up consumers and the utilities will be notified via EDI.

Q. What will the Companies do with enrollment information?

A. We will track all customer and ESP relationships for the purpose of power supply settlement as required by the New England Independent System Operator ("ISO-NE") including the provision of default service. If a consumer for any reason is

not served by an ESP, the utility will assign that consumer to "default service" (*i.e.*, service of last resort) because power service will not be physically interrupted when a customer/ESP relationship ends and is not succeeded by another such relationship.

Q. How will new customers establish service in the proposed model?

A. Just as they do at the current time. Customers will contact their utility provider (*i.e.* Central Vermont or Green Mountain) to make the arrangements to initiate service, including service appointments to establish and energize their connection to the network. Initially all new customers will be placed on default power service until we receive notification of enrollment from an ESP.

Q. Are there alternative enrollment models?

A. Yes, the customer could notify the utility of their ESP choice but we believe this will just result in more effort by the customer in most cases and is counter to the ESP's fundamental interest in establishing a relationship with each new customer. Consumers will almost certainly need to deal with an ESP to get the details of the arrangement they are entering into and the ESP can then notify the utility without the need for the customer to make the additional communication. We expect that this will minimize everyone's transaction costs and that the Board

will be able to prohibit and police abusive practices via the certification process.

Q. Will customer/ESP relationships be allowed to change at any time?

A. No, they will not. That would not be in the reasonable interest of administrative efficiency. Relationships will only be allowed to change around the time of the normal monthly meter reading cycle. In other words, consumers will only be allowed to have one ESP during any billing cycle -- as determined by when their meter is read. For a fee, a special off-cycle meter reading is included in the R-OAT as a service and customer/ESP relationship will be allowed to change at such times as well.

Q. Is there a recommendation with respect to the billing cycle?

A. We strongly recommend that ESP's be required to use the same exact billing period as the distribution utility to eliminate a potential source of major customer confusion. In particular, we believe it is important that consumers be able to observe that total kWh in the billing period reconcile between the utility and their ESP.

D. Settlement Process

Q. How will the Companies meet the ISO's power supply settlement data requirements?

A. We will report large amounts of detailed load data on both a daily and monthly basis. The required hourly load data will come from system and customer level meter readings as well as be estimated from load research sample data. The ISO's requirements to extensively report this information, in effect, creates a new, complex and potentially changing function that will be at a minimum facilitated by local delivery utilities such as Central Vermont and Green Mountain.

As background, in its "settlement function" the ISO accounts for who (*i.e.*, which ESP) is selling how much power in total (to serve consumers) and whether each such ESP has adequate supplies to serve their customer's loads, including losses and reserve requirements. This is the means by which load serving entities are assigned financial responsibility for the region's power production needs. This settlement process is needed by the ISO to maintain the financial integrity and, ultimately, the reliability of bulk power service in the region. Large amounts of hourly data are the basis of settlement and are reported daily (on a preliminary basis) for each supplier and monthly (on a final basis) for each supplier after each regular customer meter reading.

Hourly interval load data (*i.e.*, kW measured 24 hours a day, 365 days a

year) does not exist for each individual customer, and the cost of metering required to measure each individual customer time interval demands would be unjustifiable. CVPS, for example does have hourly interval data from its interval metering of the more than 600 large, individual primary and sub-transmission voltage customers as well as a statistical sample of hourly load data for smaller volume customers served in the other rate classes at lower voltage. For lower voltage customers, hourly load "profiles" are and will continue to be created from this load research data. Each day the estimated hourly load profiles of the customers served by each ESP will be aggregated and reported by some means to the ISO for settlement.

Q. How would a utility accomplish this reporting function?

A. It is too early in the process to fully answer that question. Some parts of the process may be best handled by outsourcing to competitive vendors. For example, Central Vermont might send the basic customer/ESP, estimated load profile, and metering information to a third party who would then process and send daily and monthly reports to the ISO. The cost of these new activities clearly are the result of retail access and, as such, we propose be recovered as fees charged to the ESP's. We recommend that a collaborative working group

be formed to assess the state of evolution of the ISO's settlement rules and the best ways for Vermont's small utilities to deal with them.

E. Default Service

Q. Please define Default Service.

A. *Default Service* is defined as the provision of electric energy service for a customer who does not have an ESP . Examples of where Default Service would come into play include: a customer who has been dropped due to non-payment and has not procured a replacement provider; an unsatisfied customer who has left an ESP but not as yet procured another ESP; a new customer who has yet to select an ESP.

Q. What are the threshold issues related to the provision of Default Service?

A. A fundamental issue is *what entity* should be responsible for the provision of the service. The service could be fully managed by the incumbent utility or provided by one or more selected ESP's as part of a program administered on a statewide basis that is applicable to all retail open access service territories. We believe a statewide procurement approach, billed by each participating utility, is preferable so as to maximize the scale of the effort while dealing with receivables and the deposit and disconnection rules.

Regardless of what entity contracts for Default Service, *pricing* is an issue. A price regulated default provider would have to be allowed to pass through the costs of providing and administering Default Service. Alternatively, and we believe preferably, an ESP could provide all Default Service at a periodically bid price -- taking the risk of securing power at a cost below their bid price.

Availability of Default Service could be differentiated by rate class. Because of the scale and credit risk effects associated with providing service to large loads that come and go in bigger blocks, it may be best to provide for, or at least, price, Default Service differently by class. At the current time we believe Default Service of some type must be made available to all customers including the large customer classes (*e.g.*, transmission voltage customers).

There are numerous alternatives and issues related to Default Service that deserve consideration. Is disconnection for non-payment of Default Service necessary? Should Default Service be *billed* by the utility on behalf of the default provider (our initial proposal), should that service be "branded" for the ESP on the utility bill or will the provider issue a bill and receive payment directly? As already explained, because of the Board's current deposit and disconnection rules, we expect that there would be significant issues surrounding

coordinating communications in a disconnection situation if the design is based on the default server billing and receiving payment separately. We do not recommend that approach. If disconnection were not allowed for nonpayment, what other recourse would a Default Service provider, statewide or otherwise, have with customers who fail to pay? Should default service be bid on a market indexed basis or at fixed monthly or quarterly prices? How long of a time period should the bid period extend over?

Q. How can the Board oversee default service?

A. The Board could issue a Request for Proposals for Default Service. Once selected, on the basis of a competitive process, the provider's tariff could be filed. Alternatively, the DPS could acquire the power from the selected bidder and resell it to interested customers using its existing retailing authority. The utility would administer the enrollment, billing and receivables for the default service supplier.

Q. Please summarize your initial Default Service proposal.

A. Our most fundamental proposal is that a collaborative be formed to determine how default service should be configured and how such a service can or should be complimented by a Transitional Service Offer. As a straw-man, we suggest

that such a collaborative should consider a statewide service, applicable to customers in all open access utility franchise areas, that is bid and administered under the auspices of the Board and/or the DPS. At least initially, the PSB should regularly (*e.g.*, quarterly) rebid the service or favor a bid based on a formulaic approach -- as potential providers will face new risks, particularly as to the volume of service and need some early experience to understand the potential costs of providing the service. Disconnection for non-payment of the default service consistent with the PSB's existing rules should be allowed to maintain the financial integrity of the overall system. This is service of last resort, mandatorily available to anyone, so if payment were not backed-up with disconnection, consumers who do not wish to pay could receive power supply without paying in perpetuity. Because disconnection applies, utilities should bill default service and manage the receivable. "Branding" the default provider on the utility's bill may provide extra value (and therefore lower bids) for the provider and make roles more apparent to consumers. The distribution utility must perform all disconnections for physical safety and integrity reasons but should be required to make it clear at the time of disconnection that it is also acting as agent for the Default Service provider.

Q. What about alternatives related to billing for Default Service?

A. As an alternative, a collaborative group could look into separate billing by the default provider if it can be styled to be compatible with the communications implicit in administering the Board's deposit and disconnection procedures. Those communication protocols would then be imposed on the Default Service provider through the Board's bidding and contracting process and the utility's tariffs. If consolidated billing and collections by the utility is the chosen model, the bidding process will have to be designed for basic compatibility with the rate forms used by Vermont's utilities for the categories in which it is offered.

Q. What do you initially propose for large customers?

A. Large customers served at higher voltage are more sophisticated and can be expected to have management/control systems that will normally allow them to avoid a situation where they are placed on a service of last resort. If a default service situation does occur for a large consumer, the financial exposure for both the buyer and seller may be large and may call for special arrangements. The magnitude of credit risk may be a particular concern for suppliers. A collaborative group should investigate such things as an agent-type provider under the Pool's rules or special deposit or reserve procedures if the supplier-

type model is the only feasible approach.

Q. What are the other models of default service that could be considered?

A. Two other models for Default Service are: (1) some system of requiring ESPs to provide default services proportional to the amount of business they are conducting in the state or, (2) having the distribution utilities supply it. We believe that each of these has major drawbacks relative to our initial proposal. Mandatory pro-rata ESP provision of default service would create uncertainty for ESPs in their supply procurement and pricing functions that they may not want to deal with. Such a method seems destined to create a communications and accounting nightmare due to the dynamic movement of customers, which in combination with supply management risks may serve as a barrier to entry for ESPs. The incumbent utilities aren't good candidates to provide this service because those who volunteer for open access may be exiting the power supply procurement business and the scale effect of as many as 21 small utilities separately arranging to provide power supply for a small higher risk customer segment may cause the system to be high cost. Because of the unique issues encountered in providing default and/or transitional power service in Vermont, the collaborative should consider all possible models.

F. Transitional Standard Offer (TSO)

Q. What are the Companies' initial proposals with respect to a Transitional Service Offer?

A. Our initial recommendation is that a TSO, separate from Default Service, is worthwhile, but that a joint Default and TSO collaborative group be formed to establish the appropriate key characteristics of Default Service and, in light of that, consider whether a separate, temporary TSO is warranted and, if so, what kind. Again, we offer a straw man for the group to begin with.

Q. Please describe the major issues related to offering a transitional power supply service and the nature of your initial proposal.

A. I've categorized the issues under the following questions.

Is it needed, and what is the objective? Although some form of transitional power supply service seems to be a part of restructuring plans in most jurisdictions, there is a valid question as to whether it is essential. The continued offer of a service that is similar to the bundled service the incumbent utility has provided in the past -- which is what most transitional service offers in other jurisdictions have been intentionally configured to feel like to consumers -- may tend to unnecessarily retain customers and, thereby, discourage new

entrants and slow, at least initially, the evolution to full competition in retail power supply. Conversely, lack of some form of a transitional service that has some of the attributes of ongoing integrated utility service may leave consumers confused and upset at having to make a choice on Day 1. In many states, the TSO (sometimes termed the "standard offer") is also the vehicle by which some initial savings, achieved from power cost mitigation, is conveyed with certainty to consumers.

Default Service could be configured to serve this function, but then it might attract and retain an unintended market share that inadvertently acts as a barrier to robust competition. Because of the desirability of continuity for consumers and the negative aspect of trying to make default service more desirable to serve this need for continuity, initially we recommend that a separate TSO be offered.

Q. How should it be priced?

A. This question breaks down into numerous smaller questions.

Should TSO retail prices periodically adjust to reflect underlying power costs or should a predictable price path be established as part of the procurement process? If prices adjust, how often and by what mechanism (*i.e.*,

automatic with true-ups, or periodic adjustments with no true-ups)? If a price path is imposed, how will it be determined? For example, after some initial time period (*e.g.*, a year) should the price of transitional service power supply be set relatively high and, thereby, seek specifically to facilitate customer migration and competitive entry? What is the role of transitional service pricing to stranded cost recovery, if any?

At least initially we recommend that a Transitional Service Offer be created that on day one of open access reflects the power cost mitigation achieved in restructuring, that a known price path be established for a 3 year service period that is reflective of but increasingly above then current expectations of market prices to promote movement of consumers to new ESPs.

Q. How should customer eligibility for this service be determined?

A. Again, there are many smaller questions that need answers.

Should large customers be eligible? What is appropriate for new customers -- transitional or default service? If a customer leaves the transitional service should they be able to come back?

In general, we recommend that large customers not be eligible for the TSO because continuity is not likely to be an issue, given their professional

purchasing practices, internal controls and, more frequently, expressed desire to shop for competitive power. For example, we would recommend drawing the line at Central Vermont's mandatory TOU (Rates 10, 4, and 5) and special contract customers, which together constitutes less than 1,000 of the Company's overall customer population of 130,000. Similarly, thresholds for GMP's customers should be established so as to exclude the larger Rate 63 customers and Transmission Service customers. Also, we propose that new customers not be eligible because they, by definition, do not have "continuance" expectations -- or at least not those of the existing customers. We also propose that, with the exception of low income customers and for customers who return during a one-time 120 day window that occurs only in the initial year, customers not be permitted to return to the TSO once they move to ESP supplied service. Allowing customers to move back and forth between a known, set-priced TSO and a market-priced service would impose significant unwarranted risks on potential TSO bidders that their service requirements would increase when the price it is charging is below market costs.

Q. How should it be provided? Should each utility procure and price the power supply component of a transitional service or should this component be

administered on a state-wide competitive basis and included in utility bills along with the local delivery component?

A. The Restructuring Plan contemplates that existing utility power supply resources will be auctioned or sold to achieve maximum cost mitigation and, as such, new resources will have to be procured to provide the transitional power supply.

In general, we propose that the TSO be competitively bid under the auspices of the PSB to one or more exclusive providers, due to Vermont's small size, for the entire three-year period and separately for the individual years within that period -- and whichever proves to produce the most desirable bids can then be selected. Any premium payments collected from bid winners should be used to reduce the participating utility's stranded cost balances. The TSO should be separately billed by the provider to: (1) help make consumers more aware of the restructuring; (2) because disconnection for non-payment will not be part of the program (obviating the need for utility billing and receivable management); and (3) to provide the TSP provider with clear branding value and marketing opportunities. It only stands to reason that the more attractive Vermont can make the job of TSO provider, the more likely that potential providers will be encouraged to compete to get the service.

Consideration should also be given to allowing the TSO supplier to automatically continue serving remaining TSO customers at the end of the third year, at terms applicable to all ESPs. This will provide some extra value to the TSO bid winner and obviate the need to either allocate these customers to ESPs or move them as a block to Default Service -- which neither they, nor the ESPs, nor the default supplier may want. Added value to the TSO provider may result in greater premium bids and, thus, lower stranded cost payments for all customers.

As an alternative, the utilities could utilize existing resources or bid for new resources and resell them in a TSO that otherwise meets the objectives stated above. The margin collected above the market price would be credited against stranded cost balances -- ultimately reducing CTC's or the duration of CTC's -- achieving the same effect as in the primary proposal.

There are also significant decisions to be made about what processes should be used to establish the other objectives of the RFP that implements the bid. Again, we recommend a collaborative working group to consider how to solicit and evaluate bids and recommend what physical/environmental characteristics the requested power should have. The group should also

develop how the auspices of the PSB can best be used to oversee ongoing administration of the TSO.

Note, as with default service, once a bid is selected, it could be administered via a tariff or through a purchase and resale system under the authority of the DPS.

G. Unbundled Rate Design and Cost-of-Service (COS)

Q. Before describing your recommendations, please summarize the rate design and COS unbundling issues?

A. *COS unbundling* refers to the functional categorization of the costs underlying the Company's total cost of service and bundled rates. Appropriate COS unbundling will facilitate industry restructuring by making component costs reasonably explicit, and, ultimately, aligning revenue collections with the ongoing cost of delivery service. *Rate Design Unbundling* is the separation and redesign of previously bundled retail prices according to functional categories (*e.g.*, delivery charges, CTC's, social benefits charges and taxes) using kWh, kW and service charges.

Q. What are the steps in unbundling the COS, and what are your recommendations?

A. The uniform system of accounts provides reasonably detailed component costs within the major categories of customer service, distribution, transmission, production and common costs. The first four categories represent directly identifiable expenses and return of and on plant and equipment dedicated to those functions. "Common costs" are made up of: (1) administration and general expenses; (2) return of-and- on common and intangible plant; and (3) in some cases, certain regulatory assets. Common expenses and investment are necessary for the companies to be in business providing any service in any of the four functional service categories. In the bundled regulated model, in which rates have previously been designed, common costs (after assignment and allocation between regulated and unregulated business affiliates based upon Board approved affiliate transactions rules) were allocated to the four functional cost categories, which then served to drive rate class revenue allocations and various component prices (*e.g.*, production energy costs recovered in kWh charges while investment costs were recovered more intensively in kW charges). In a fundamental way it mattered little how common costs were allocated because service was bundled and there was no direct competitive entry. In the new open access model, it is necessary that common costs be assigned only to

the ongoing utility service functions and collected in those charges because many of these costs will not be avoided when one of the utility functions, (*i.e.*, power procurement and production) ceases. For example, Central Vermont began "restructuring" itself in 1994, now having cut its utility work force from nearly 800 to approximately 500 by year end. Central Vermont and GMP were purchased power companies to begin with, generating a small proportion of their native load needs. The common costs that remain are costs necessary to continuing utility operations and, therefore, must be recovered in the charges for ongoing utility delivery services. If a fraction of these costs prove to be avoidable in the future, that will show up in the Company's accounts, which means the reductions will be reflected in rates in future rate proceedings.

Q. In practice, what does that mean for COS unbundling?

A. Exhibit WJD-2 is a COS study based on the principle that common costs no longer be allocated as a production cost -- so as to not become part of a stranded cost that will end when the direct cost of the Company's power portfolio have ended. In this COS study, common costs are functionalized by allocation to the customer, distribution and transmission function.

Q. Briefly explain how this unbundled COS was performed.

A. Based on billing determinants from the test period of Central Vermont's most recent rate case Docket No. 6120 (12 months ended 3/31/98) and the unit prices approved by the Board as part of the temporary rate order in that Docket, a total COS was approximated. The direct booked cost of production was identified from the filing and decreased by the $7.4M *pro forma* disallowance of HQ/VJO power cost and a proration of the $3.4M of operation and maintenance that was removed from the total COS by stipulation. Production cost allocators from the most recent rate redesign docket were rescaled to be consistent with this test period and then used to allocate direct-book production costs to the classes. The non-power COS was then derived by subtracting the direct embedded power cost described above from the total COS described above.

Q. What are you asking the Board to approve with respect to an unbundled COS methodology?

A. The unbundled COS is a key step in the developing charges for ongoing utility services and stranded cost recovery in open access. The other dockets provided in the plan will determine the amount of production cost mitigation and, ultimately, the amount of total net recovery of stranded costs through competition transition charges ("CTC"). The CTC charges will be transitional and established

in the unbundled rates to recover net stranded costs over some finite period of time. All other costs of service, including utility common costs, should be recovered through the other unbundled charges. We are asking the Board to approve the fundamental principles of cost allocation that I have described and which underlie the methodology that is implemented in Exhibit___WJD-2.

Q. What are the other rate design related proposals?

A. Previously, I have described the deseasonalization of rates and how that ought to carry over into unbundled rates so that testimony is not repeated here. For the unbundled rates that are going into effect “Day 1" of open access, we are proposing no other structural shifts. In other words, using the existing but deseasonalized form of daily service, kWh and (where applicable) kW charges, we will divide up the bundled charges so as to designate separate charges for ongoing utility services, CTC charges for net stranded cost recovery and, only in the case of Default Service, power supply charges.

What ever the savings turn out to be from mitigation will be reflected in the CTC so that all customers should see similar rate and bill changes in order to assure that Restructuring Principle #10, “the benefits of restructuring extend equitably to all classes of consumers” is met. We do not propose other changes

to the structure of rates. It is our proposal to break apart the existing component rates (once deseasonalized) in a manner that will collect the ongoing cost of providing utility service first in the service charge, then in kW charges and, only to the extent necessary, in the kWh charges in each demand and energy billed rate classes' rate structure. Transitional stranded cost charges (or CTC's) will then be structured from the remaining unassigned kW rate first and then kWh charges.

We propose that for the demand and energy billed rate categories (*e.g.* for CVPS Rates 2, 4, 5, 10, 12), the absence of bundled-in production service from the utility will be primarily reflected as reductions in energy charges and then demand charges. Of course, for the rates that are primarily billed on a kWh basis, ongoing service costs and CTC charges will be primarily collected in the kWh charges with the market value of energy and capacity removed.

Q. Should the rate designs be adjusted in the future?

A. Yes, class revenues should be allowed to adjust as future deseasonalized, unbundled COS suggest. The delivery business is a more kW demand driven, plant and equipment intensive business than the integrated utility business has been with its heavy energy and purchased power inputs. This suggests that

rate designs for ongoing services should emphasize kW charge based cost collection mechanisms such as ratcheted kW charges. As the more heavily kWh-oriented CTC charges phased out over the transition period, this will tend to be the natural result. The Board may wish to consider wider use of the demand denominated charges for the largest customers in what are now the kWh billed rates (*e.g.* for Central Vermont Rates 1, 3, 8, 9, 11, 13, 14 and 15). These sorts of rate design changes are also consistent with the Department's desire to eliminate the "lost net revenue" adjustment necessitated by energy efficiency programs whenever costs at the margin are low relative to average unit charges.

Q. Are there other changes in how rates would be applied to customer usage in open access?

A. Yes, we are proposing that the CTC be made applicable on the power production of consumers who newly self-generate except for those currently eligible by statute, for net metering service. Furthermore, should any customer utilize utility delivery facilities to either move self-generated power among its own loads or sell to another customer, the proposed tariff would subject such amounts to all of the requirements imposed on the sales of any ESP's.

H. Consumer Protections

Q. What has the Company included in its filing in the way of consumer protections?

A. Appendix E of the Retail Open Access Tariff contains what can best be thought of as initial Consumer Protection Standards outlines for Board consideration. It is focused around information that must be disclosed to consumers (terms of offer, source mix labeling and emissions labeling through labeling and other reporting means) and what the DPS has coined as the Consumer Bill of Rights. The Consumer Bill of Rights describes 13 specific, basic rights that consumers must have in an open access world. Those rights relate to information, fair treatment, association with other consumers and privacy.

Q. Are these protections built into this filing?

A. Yes, but I would hasten to emphasize that some are only addressed in limited detail. For example, the business rules detailed in Appendix C require a rather nonsymetric requirement that consumers provide only five days notice to change ESPs while and ESP must provide the consumer 21 days in recognition that consumers should be given more time to react.

Q. What are the next steps required to implement these consumer protections?

A. The Board must determine the scope and extent of the protections it will require

and they must be made more specific and pragmatic. Again we expect, and our primary recommendation is, that a collaborative composed of the stake holders would be the best structure to be charged with development of specific rules and procedures. Those provisions can then be incorporated into our tariffs or made a condition for ESP certification to registration as the Board may require.

I. Public Benefit Programs

Q. What public benefit areas are addressed in the open access filing?

A. The Vermont Restructuring Principles establish that ESP's will be required to meet certain minimum, renewable resource requirements and maximum emission standards. There are also provisions designed to address the special needs of low income customers.

1. Low Income Customer Programs

Q. What are the special provisions contained in the Companies' filing that are designed to address the needs of low income consumers?

A. ESPs are required to make all generally available offerings available to all consumers and they cannot engage in any practice that has the effect of discriminating against low income customers such as "red-lining." It is also

proposed that Low income customers be also allowed a special exemption to the general rule that consumers can not return to the Transitional Service Offer once they have left for ESP provided service. Low income consumers can re-enroll at any time during the TSO period. The Companies are open to other provisions that may arise through working group efforts.

Q. Did the companies consider proposing a bill assistance/arrearage forgiveness program?

A. Yes we did, but given the lack of legislative authorization it does not appear as though such a proposal can be implemented by the PSB. As Central Vermont stated in the PSB Docket No. 5308, which investigated low income consumer issues in the regulated model, the determination of the need for and amount of such assistance and issues of funding sources are public interest questions best resolved by the Legislature. It is possible to proceed with retail access or, at least, to make the necessary operating arrangements for retail access while the Legislature contemplates this public policy question in the context of other existing programs and overall need. A bill assistance program can be added before or after open access begins. It is our recommendation that a collaborative effort be used to develop alternative approaches to bill assistance

and related draft legislative authorization.

2. [1]Renewable Resource Requirements and Emission Limitations

Q. How does the filing address the renewable resource and emission ESP portfolio requirements contemplated by the Vermont Restructuring Principles?

A. Appendices F and G of the R-OAT describe basic forms for renewable resource and emissions standards that can be considered by the Board, respectively. They are meant to be starting points to be further developed by involved members of a collaborative group. The renewable resource requirements included in the appendix to the tariff is modeled on the two tier approach that the Vermont Senate included in the restructuring bill it passed in 1997. The compliance process would occur under the direction of the PSB. We suggest that such a collaborative group examine similar renewable resource programs under development in other states in this region with an eye toward not creating barriers to entry for ESPs in Vermont.

J. Consumer Education

Q. What are the issues in regard to customer education?

A. Customer awareness and understanding of what retail access means is typically

1

found to be low. After all, generations of consumers have been used to dealing only with a monopoly electric utility and often don't conceptualize the different component services that are involved. The task is to provide the information needed that will allow customers to make informed choices about their electricity supplier. Because of inertia, this will not be an easy task, and it is significantly complicated by the fact that Vermont has 21 irregularly shaped service areas -- not all of which will be participating in open access at the same time.

Q. How do the Companies propose to deal with consumer education?

A. We propose that a collaborative group begin with the DPS' plan, *"A Consumer Information and Education Plan Developed by the Vermont Department of Public Service for Electric Utility Industry Restructuring"* (submitted by the Vermont Public Service Board, February 18, 1997) (Appendix H of the Tariff) as a basic blue print. We support the conclusion stated in that plan that the DPS be the primary facilitator of consumer education, but we also stand ready to play an appropriate role. Furthermore, as the DPS has gained further experience in the area of competitive telephone services, I would expect there are aspects of the original plan that the DPS would now want to update.

Q. Do you have any final thoughts?

A. Yes. In this testimony I have attempted to provide an introduction to the concepts and justification contained in the Companies' Retail Open Access Tariff proposal. In order to flesh out these ideas, stakeholders and interested parties will have to work together collaboratively in order to find effective and efficient strategies to transform the Vermont electric utility industry. Give the myriad of issues involved in this process, I urge the Board to start its processes now and not risk a bottleneck when mitigation efforts bear fruit. That is why Central Vermont and Green Mountain have brought this petition and that is why we recommend that the Board pursue the consensus building strategies identified in our filing.

Q. Does this conclude your testimony?

A. Yes.